

APPENDIX J

ANDEAN COUNTRIES

Overview

On August 6, 2002, the President signed into law the Trade Act of 2002. Title XXXI of the Act, the “Andean Trade Promotion and Drug Eradication Act” (ATPDEA), renewed the Andean Trade Preference Act (ATPA), and amended the ATPA to provide preferential treatment for certain articles previously excluded from such treatment.¹ Section 3103(a)(2) of the ATPDEA amended section 204(b) of the ATPA to provide duty-free and quota-free treatment to imports of qualifying textile and apparel articles from designated ATPDEA beneficiary countries, effective on October 31, 2002. The President designated Bolivia, Colombia, Ecuador, and Peru as ATPDEA beneficiary countries.²

The ATPA was enacted in 1991 to expand economic alternatives for Bolivia, Colombia, Ecuador, and Peru in their fight against drug production and trafficking. The program, which had expired on December 4, 2001, provided duty-free access to the U.S. market for most goods originating in the Andean countries and reduced duties on leather apparel and certain other leather goods such as luggage. The Andean countries had expressed concern that the implementation of U.S. trade preferences for CBERA countries in 2000 had weakened their competitiveness in the U.S. apparel market and led to a loss of apparel trade to CBERA countries.³

The ATPDEA authorized duty-free and quota-free treatment for textile and apparel articles made in Andean countries from fabrics that were formed (including dyed, printed, and finished) in the United States of U.S. yarns, as well as specified quantities of apparel made from “regional fabrics” formed in the Andean countries. The key textile and apparel provisions in the ATPDEA are summarized in figure J-1, found at the end of this overview.

Andean textile and apparel exports rose by 15 percent during 1997-2001 to \$1.6 billion (table J-1). The Andean countries’ major trading partners for textiles and apparel are the United States and the European Union (EU); intra-Andean country trade is also significant. The EU grants duty-free treatment to qualifying Andean textile and apparel articles under its Generalized System of Preferences until 2004.

U.S. imports of textiles and apparel from the Andean countries rose from \$633 million in 1997 to a high of \$892 million in 2000, and then fell in 2001 and 2002, to \$800 million (table J-2). Sector imports from the Andean countries in 2002 came almost entirely from Peru (49 percent of the total value) and Colombia (46 percent). Peru replaced Colombia as the major Andean supplier of sector goods in 2001.

An important development in U.S.-Andean sector trade in recent years was the declining significance of U.S. apparel imports involving production sharing, in which U.S. firms ship garment parts to an offshore market for sewing and then re-import the assembled garments

¹ Textiles and apparel subject to textile agreements (e.g., articles of cotton, wool, and manmade fibers covered by the former Multifiber Arrangement) are excluded by law from duty-free treatment under ATPA.

² Presidential Proclamation 7616 of October 31, 2002, “To Implement the Andean Trade Promotion and Drug Eradication Act,” *Federal Register* (67 F.R. 67283), Nov. 5, 2002, p. 67283.

³ See the “overview” at the beginning of appendix I of this report for information on U.S. trade preferences for CBERA countries.

under HTS heading 9802.00.80.⁴ The share of the total value of U.S. apparel imports from the Andean region entered under HTS heading 9802.00.80 declined from 43 percent in 1997 to 17 percent in 2002. Colombia accounted for most of these imports during 1997-2002. The decline in apparel imports entering under HTS heading 9802.00.80 likely reflected a shift in Colombia's sector trade from apparel assembly-only operations to "full package" apparel programs in an effort to increase its competitiveness (see the profile of Colombia's textile and apparel sector in this appendix for further information on this issue).

Cotton apparel accounted for the vast majority (75 percent) of U.S. textile and apparel imports from the Andean countries in 2002; cotton knit shirts and blouses accounted for 57 percent of total U.S. cotton apparel imports, followed by cotton pants at 24 percent.

U.S. imports of cotton pants and knit tops from major world suppliers, especially those in Asia, are highly constrained by quotas. The Andean countries will therefore face increased global competition in their leading apparel exports following quota elimination in 2005. Because the ATPDEA went into effect late in 2002, very little textile and apparel trade was reported under the new ATPDEA provisions by the end of the year.

Table J-1
Andean countries: World exports of textiles and apparel, 1997-2001

Country	1997	1998	1999	2000	2001
<i>Million dollars</i>					
Colombia	737	699	664	788	835
Peru	521	500	528	632	621
Ecuador	66	57	55	60	70
Bolivia	32	33	40	46	39
Total	1,356	1,289	1,288	1,526	1,566

Note.—Because of rounding, figures may not add to totals shown.

Source: Compiled from United Nations data.

Table J-2
Textiles and apparel: U.S. general imports from Andean countries, 1997-2002

Country	1997	1998	1999	2000	2001	2002
<i>1,000 dollars</i>						
Peru	221,360	246,018	323,987	405,650	383,783	395,306
Colombia	381,296	391,962	408,515	443,766	376,326	369,643
Bolivia	12,403	17,142	15,662	19,172	18,372	18,723
Ecuador	17,894	14,407	19,289	23,087	24,704	15,855
Total	632,953	669,529	767,453	891,675	803,185	799,527

Source: Compiled from official statistics of the U.S. Department of Commerce.

⁴ HTS heading 9802.00.80 provides a duty exemption for U.S. components that are returned to the United States as parts of goods assembled abroad. In general, the duty is assessed only on the value added abroad.

Figure J-1**Key textile and apparel provisions in the Andean Trade Promotion and Drug Eradication Act (ATPDEA)**

Articles eligible to enter free of duty and quota	Criteria
Apparel assembled in one or more Andean beneficiary countries from fabrics wholly formed in the United States	*From U.S. yarn only *Requires U.S. thread if fabric is cut in region *Knit and woven fabrics must be dyed, printed, and finished in the United States
Apparel assembled from components knit-to-shape in the United States	*From U.S. yarn only
Apparel assembled from regional fabrics or regional components formed or from components knit-to-shape	*From U.S. or regional yarn *Subject to a cap
Apparel assembled from Andean fabrics or fabric components formed or components knit-to-shape of llama, alpaca, or vicuna.	*From Andean yarn
Apparel assembled from components knit-to-shape in the region	*From U.S. yarn only *Subject to cap
Size of regional cap	Maximum 2 percent of the aggregate square meter equivalents of all apparel articles imported into the United States in the preceding 12-month period, increased in equal increments in each succeeding 1-year period to a maximum of 5 percent for the period beginning October 1, 2006.
Certain brassieres cut and sewn or otherwise assembled in the United States, or one or more Andean countries, or both	*Total costs of U.S. fabric components in preceding 1-year period must be at least 75 percent of the aggregate declared customs value of the fabric (exclusive of all findings and trimmings) contained in all brassieres entered in that period.
Apparel assembled in Andean countries from yarns or fabrics deemed to be in "short supply" in the United States, as identified in annex 401 of NAFTA	*Such yarns and fabrics include fine-count cotton fabrics for nightwear and certain underwear; linen; silk; cotton velveteen and fine-wale corduroy fabrics; certain hand-woven Harris Tweed wool fabrics; certain woven wool fabrics made with fine animal hair; certain lightweight, high-thread count polyester-cotton woven fabrics; and certain lightweight, high-thread count woven fabrics for use in men's and boys' shorts.
Certified handloomed, handmade, and folklore articles	*Originating in Andean countries
Textile luggage assembled in Andean countries from U.S. fabrics	*Must be of U.S. yarn
Duration	*December 31, 2006

Source: Compiled by the U.S. International Trade Commission.

Overview

Bolivia's textile and apparel sector grew at an average annual rate of 22 percent during 1996-2000 and accounted for 22 percent of the country's industrial labor force in 2000.² According to United Nations data, textiles and apparel represent a small share of Bolivia's total merchandise exports, accounting for 3 percent (\$39 million) of the total in 2001 (the export shares for textiles and apparel of the countries covered by the study are shown in chapter I of this report, table 1-1 and figure 1-2). The implementation of the ATPDEA in October 2002 has sparked optimism about opportunities for increased exports to the U.S. market.

Industry Profile

Although considered to be still in its infancy, Bolivia's textile and apparel sector is viewed as capable of competing in the global market because of its high quality and competitively priced products.³ Production is based on cotton, wool, and specialty fine hairs from indigenous llamas and alpaca sheep.

Industry structure and performance

Bolivia's textile and apparel sector consists mostly of small establishments, most of which are located in La Paz, Cochabamba, and Santa Cruz.⁴ Bolivian government data reportedly show that 97 percent of the apparel factories are small; 2 percent are medium-size plants, and 1 percent are large. Bolivia also has some vertically integrated mills. The Bolivian Chamber of Industry reported 235 legally registered textile companies operating in 1999. When including companies in the informal sector, the number rises to 3,500.⁵ Another source reports that Bolivia had a total of 10,000 apparel factories in 2000.⁶ Employment data vary widely with the number of sector workers in 1999 ranging from 36,000 to 70,000 workers.

¹ Prepared by Laura Rodriguez, Office of Industries.

² U.S. Department of State telegram 3788, "Bolivians Propose Tariff and Quota Free Access to U.S. Textiles Market," prepared by U.S. Embassy, La Paz, Aug. 31, 2000. The telegram states that because much of the apparel trade occurs in the "informal economy," it is difficult to compile credible data on the Bolivian textile and apparel sector.

³ U.S. Department of State telegram 3788, "Bolivians Propose Tariff and Quota Free Access."

⁴ "Bolivia, Brazil, Chile," *Apparel Industry*, Sept. 2000, vol. 61, issue 9, p. 48, found at <http://web22.epnet.com>, retrieved Nov. 4, 2002.

⁵ Embassy of Bolivia, "Estudio técnico de los sectores y textil y madera en el marco ATPDE," Apr. 30, 2003.

⁶ "Bolivia, Brazil, Chile," *Apparel Industry*, Sept. 2000, p. 48.

Bolivia is a landlocked country with no seaports, and its underdeveloped transportation and communications infrastructure hampers access to export markets.⁷ Hence, most products must be shipped via air.⁸ Bolivia's textile and apparel sector has been affected by the country's recent economic downturn. Industry sources report that many manufacturing establishments, including textile and apparel enterprises, have experienced financial difficulties and resistance from banks in obtaining more credit, hampering the expansion of export-oriented production. Only a small number of Bolivia's producers are considered large enough to react quickly to the market opportunities offered by the ATPDEA. Nevertheless, some leading apparel producers are increasing their capacity, purchasing more fabric, and seeking new contracts to sell high-end, designer-label apparel to U.S. department stores.⁹

Factors of production

Bolivia has domestic sources of raw cotton as well as fine animal hair, including alpaca, angora, and llama hair. However, domestic cotton output, price, and quality are insufficient to meet textile production needs,¹⁰ and there are shortages of intermediate products such as thread and fabric.¹¹ Cotton production has declined in recent years because a sharp drop in international cotton prices has prompted farmers to shift to more profitable crops.¹² The United States, Mexico, and Peru are the principal suppliers of raw cotton and other fibers to Bolivia. Apparel producers rely on imports for their thread and fabric requirements, because Bolivian spinning mills reportedly cannot produce sufficient quantities at the appropriate level of quality to meet local demand.¹³ Cotton yarns and fabrics come primarily from the United States, Peru, China, Chile, and Taiwan. There are no import-licensing requirements or unduly restrictive tariffs that specifically hinder the supply of imported inputs.¹⁴ Bolivia's poor road system increases delivery time, and reliance on air transport increases the cost of imported inputs.

In 2001, about 70,000 workers were employed by Bolivian textile and apparel producers (table J-3).¹⁵ Bolivian workers are considered skilled and have a tradition of producing

⁷ "Bolivia," *Caribbean/Latin America Profile 2003* (Miami: Caribbean Publishing Co.), p. D-8.

⁸ U.S. Department of State telegram 3008, "Bolivians Want Their Piece of the ATPDEA Pie," prepared by U.S. Embassy, La Paz, Aug. 19, 2002.

⁹ U.S. Department of State telegram 2877, "ATPA Scores Big in Bolivia," prepared by U.S. Embassy, La Paz, Aug. 9, 2002.

¹⁰ Embassy of Bolivia, "Estudio técnico de los sectores y textil y madera en el marco ATPDEA."

¹¹ Bolivia has only three producers of thread. Bolivian Government, written submission to the Commission, Feb. 21, 2003.

¹² Ibid., and U.S. Department of State telegram 3788, "Bolivians Propose Tariff and Quota Free Access."

¹³ Bolivia imports 75 to 80 percent of the thread used in textile production from Peru. Ibid.

¹⁴ Textile and apparel imports are subject to a tariff of 10 percent ad valorem, the same duty rate assessed on all imported goods except capital goods, books, and publications. Export Advantage, "Bolivia: Import Tariffs and Taxes," Jan. 1, 2003, found at <http://web.ita.doc/tacgi/overseas.nsf>, retrieved Jan. 30, 2003.

¹⁵ U.S. Department of State telegram 2877, "ATPA Scores Big in Bolivia," prepared by U.S. Embassy, La Paz, Aug. 9, 2002.

apparel of good design.¹⁶ Bolivia's textile and apparel wages, which account for about 20 to 30 percent of production cost,¹⁷ are lower than in the other Andean countries, which the government considers to be a competitive advantage.¹⁸ However, Bolivia's wage rates are higher than those of major Asian supplying countries such as China. Bolivian apparel wage rates in 2002 were \$0.80 per hour, compared with \$0.68 per hour for China (see table 3-1 in chapter 3 of this report for data on hourly compensation in the textile and apparel sector of selected countries covered by this study).

Industry sources estimate Bolivia's textile and apparel sector to be operating at 50 percent capacity.¹⁹ International Textile Machinery Federation data show that Bolivia's installed spinning capacity (short-staple and long-staple spindles and open-end rotors) is substantially less than that of its Andean neighbors. Views are mixed concerning the condition of manufacturing equipment. Some industry sources report that Bolivia's sector "lacks leading-edge machinery" and does not meet the technical standards and certifications demanded by the international market. Other sources note that the technology is up-to-date.²⁰

Investment

Although Bolivian government officials estimate that the ATPDEA's tariff benefits could lead to \$200 million in foreign direct investment (FDI) and up to 50,000 new jobs over the next 5 years,²¹ information concerning how much may be directed to the textile and apparel sector is not readily available.²² Bolivian textile and apparel producers are seeking to attract new FDI to expand existing plant capacity and to establish new facilities in order to boost exports to the U.S. market.²³

Government Policies

In 1990, Bolivia established a new investment code that grants equal treatment to foreign investors and Bolivian nationals. No restrictions are imposed on property ownership, imports, repatriation of profits, dividends, interest, or royalties beyond the normal tax obligations applicable to domestic businesses and Bolivian individuals. Joint ventures are encouraged and investment insurance is allowed. Foreign-trade zones were also created with no tariffs or taxes imposed on imported inputs for producing export goods (through the

¹⁶ Mercedes Cortazar, "The Bolivian Industry Moves Toward Legality," *Apparel Industry International*, Sept. 1999, found at <http://www.aiimag.com>, retrieved Sept. 19, 2000.

¹⁷ Embassy of Bolivia, "Estudio técnico de los sectores textil y madera en el marco ATPDEA."

¹⁸ U.S. Department of State telegram 2877, "ATPA Scores Big in Bolivia."

¹⁹ Ibid.

²⁰ Cortazar, "The Bolivian Industry Moves Toward Legality."

²¹ U.S. Department of State telegram 2877, "ATPA Scores Big in Bolivia."

²² Bolivia's energy sector has attracted most of the country's FDI. See "Bolivia-Economic Summary," Caribbean/Latin America Profile, Caribbean Publishing Co., 2002.

²³ Ibid., and U.S. Department of State telegram 3008, "Bolivians Want Their Piece of the ATPDEA Pie."

Temporary Import and Export Regimen, or RITEX). Industry sources report that Bolivia currently has six foreign-trade zones, including an underutilized one located in El Alto.²⁴

Aside from ATPDEA preferences, which is discussed in the “overview” at the beginning of this appendix, Bolivia receives trade preferences from its other major trading partners. Bolivia is a full member of the Andean Community²⁵ and an associate member of Mercosur, which immediately gave duty-free status to 1,000 Bolivian products in Brazil, Argentina, Chile, Uruguay, and Paraguay.²⁶ Bolivia has free-trade agreements with Mexico and Chile and a preferential trade arrangement with the European Union (EU) that will grant duty-free access to the EU market for textiles and apparel as part of the EU’s Generalized System of Preferences until 2004.²⁷

Foreign Trade

Bolivia’s textile and apparel trade deficit widened significantly from \$4 million in 1997 to \$41 million in 2001, as imports doubled to \$80 million and exports rose by 22 percent to \$39 million (table J-3). Textiles accounted for 74 percent of the imports in 2001, and they came primarily from Peru (16 percent), China (16 percent), Brazil (13 percent), and Taiwan (13 percent). Thread and fabrics were among the principal textile products imported into Bolivia. Much of the increase in textile imports during 1997-2001 was accounted for by surges in imports from China, which rose more than twelvefold to \$9.4 million. Apparel imports almost tripled during 1997-2001 to \$20 million. According to United Nations data, key suppliers of apparel in 2001 were China (31 percent), Chile (12 percent), and Brazil (11 percent). Bolivia’s imports of apparel from China rose from \$128,000 in 1997 to \$6.4 million in 2001, while imports of apparel from Chile more than tripled to \$2.4 million.

Bolivia’s exports of textiles and apparel grew by 22 percent during 1997-2001 (table J-4). In 2001, apparel accounted for 72 percent of Bolivian sector exports. The major export market for Bolivian apparel was the United States (64 percent of the total in 2001). Bolivia is not subject to textile or apparel quotas in the United States or the EU.

Official U.S. statistics show that U.S. imports of textiles and apparel from Bolivia grew by 241 percent during 1997-2002 to 5.3 million square meters equivalent (SMEs) (table J-5). Nevertheless, Bolivia accounted for less than 0.5 percent of the total quantity of U.S. textile and apparel imports in 2002. The trade-weighted average duty rate on U.S. imports of sector products from Bolivia was 17.3 percent ad valorem in 2002. The principal sector import from Bolivia was apparel, such as cotton knit shirts, sweaters, and pants.

²⁴ U.S. Department of State telegram 3008, “Bolivians Want Their Piece of the ATPDEA Pie.”

²⁵ The Andean Community, comprising Bolivia, Colombia, Ecuador, Peru, and Venezuela, is a Customs Union (i.e., the goods of its member countries circulate unimpededly throughout its territory free of duties, while imports from outside the Community pay a common tariff). See “Who Are We--Andean Community,” found at <http://www.comunidadanina.org/ingles/who.htm>, retrieved Apr. 24, 2003.

²⁶ “Bolivia - Economic Summary,” *Caribbean/Latin America Profile*, Caribbean Publishing Co., 2002, p. D-10.

²⁷ Director of Marketing, Colombia Trade Bureau, facsimile to USITC staff, Apr. 1, 2003.

Table J-3

Bolivia: Statistical profile of textile and apparel sector and foreign trade, 1997-2001

Item	1997	1998	1999	2000	2001
Foreign trade:					
Exports:					
Textiles (<i>million dollars</i>)	5.1	5.6	14.5	15.7	11.0
Apparel (<i>million dollars</i>)	26.5	27.2	26.0	30.1	27.6
Total (<i>million dollars</i>)	31.7	32.8	40.5	45.6	38.6
Imports:					
Textiles (<i>million dollars</i>)	28.7	31.2	32.1	57.0	59.5
Apparel (<i>million dollars</i>)	7.2	10.9	14.1	26.7	20.4
Total (<i>million dollars</i>)	35.8	42.0	46.2	83.7	79.9
Trade balance:					
Textiles (<i>million dollars</i>)	-23.5	-25.5	-17.7	-41.3	-48.5
Apparel (<i>million dollars</i>)	19.4	12.0	12.0	3.4	7.2
Total (<i>million dollars</i>)	-4.2	-9.2	-5.7	-37.9	-41.3

¹ Not available.

Note.—Because of rounding, figures may not add to totals shown.

Source: Trade data are United Nations data as reported by Bolivia.

Table J-4
Bolivia: Exports of textiles and apparel, by selected markets, 1997-2001

Item and market	1997	1998	1999	2000	2001
<i>Million dollars</i>					
Textiles (SITC 65):					
Quota markets:					
United States	(¹)	(¹)	(¹)	(¹)	(¹)
European Union	(¹)	(¹)	(¹)	(¹)	(¹)
Canada	(¹)	0	(¹)	0	(¹)
Subtotal	(¹)	(¹)	(¹)	(¹)	(¹)
All other:					
Colombia	(¹)	1	6	5	4
Peru	2	3	6	6	4
Venezuela	0	0	(¹)	1	1
Other	3	1	3	3	2
Subtotal	5	6	14	16	11
Grand total	5	6	14	16	11
Apparel (SITC 84):					
Quota markets:					
United States	12	17	16	20	18
European Union	3	2	3	3	2
Canada	(¹)	(¹)	(¹)	(¹)	(¹)
Subtotal	16	20	19	23	20
All other	11	7	7	7	7
Grand total	27	27	26	30	28
Textiles and apparel:					
Quota markets:					
United States	12	17	16	20	18
European Union	3	2	3	3	3
Canada	(¹)	(¹)	(¹)	(¹)	(¹)
Subtotal	16	20	19	23	20
All other	16	13	22	22	18
Grand total	32	33	40	46	39
<i>Percent</i>					
Share of exports going to quota markets:					
Textiles	2	1	(²)	1	1
Apparel	59	73	72	77	73
Average	50	61	46	51	53

¹ Less than \$500,000.

² Less than 0.05 percent.

Note.—Because of rounding, figures may not add to totals shown.

Source: Compiled from United Nations data.

Table J-5**Textiles and apparel: U.S. general imports from Bolivia, by specified product categories,¹
1997-2002**

Cat. No.	Description	1997	1998	1999	2000	2001	2002
<i>—1,000 square meters equivalent—</i>							
0	Textiles and apparel, total	1,567	2,320	2,351	3,423	3,525	5,349
1	Apparel	1,552	2,298	2,333	3,372	3,092	3,454
2	Textiles	16	22	18	51	433	1,894
30	Cotton textiles and apparel	1,374	2,154	2,050	2,513	2,670	3,146
60	Manmade-fiber textiles and apparel	38	8	178	810	766	2,067
338	Cotton knit shirts, men/boys	720	1,095	1,135	1,576	1,544	1,794
339	Cotton knit shirts, women/girls	115	338	360	396	320	214
345	Cotton sweaters	97	217	284	280	263	248
347	Cotton trousers, men/boys	7	63	22	5	234	178
348	Cotton trousers, women/girls	1	29	11	54	8	33
351	Cotton nightwear	116	81	103	71	20	25
352	Cotton underwear	4	0	1	0	0	160
669	Other manmade-fiber manufactures	0	0	0	0	346	1,838

¹ To administer the U.S. textiles and apparel quota programs, articles are grouped under 3-digit category numbers, which cover many 10-digit statistical reporting numbers under which goods are classified for statistical purposes in the Harmonized Tariff Schedule of the United States (HTS). The 1-digit and 2-digit numbers represent specific levels of import aggregation for articles covered by the quota program (e.g., the number "1" represents total imports of apparel, while "31" represents total imports of cotton apparel).

Source: Compiled from official statistics of the U.S. Department of Commerce, which are available on its website at <http://otexa.ita.doc.gov/>.

Colombia¹

Overview

Colombia's textile and apparel sector is one of the nation's key industries, accounting for 9 percent of the country's manufacturing GDP, 24 percent of manufacturing employment, and 7 percent of total exports in 2001. The sector has stagnated since the late 1990s, as it lost ground to countries that benefited from preferential access to the U.S. apparel market, particularly Mexico and the Caribbean Basin countries. Although the Colombian Government implemented economic reforms during the early 1990s to open Colombia's economy to more foreign investment (such as tariff reductions, financial deregulation, privatization of state-owned enterprises, and a more flexible foreign exchange rate), the resulting surge in imports of apparel caused a number of apparel producers to go out of business.² In 2001, Colombia lost its place to Peru as the leading Andean supplier of textiles and apparel to the United States, the principal market for Colombian apparel exports.

Colombia has a strategic geographic location close to the United States, especially to Miami, and is at a midpoint location between North and South America. It is also the only South American country with ports on both the Pacific Ocean and the Caribbean Sea (Barranquilla is the main port on the Atlantic Coast, Cartagena is in the Industrial Zone along the Caribbean Sea, and Buenaventura is on the Pacific Coast). Colombia's mountainous terrain, however, makes land transportation difficult. Thirteen highway projects are under way to alleviate this challenge.

Industry Profile

Industry structure and performance

Colombia's textile and apparel sector is concentrated in Medellin and Bogota, which account for almost one-half and about 35 percent of sector production, respectively.³ The Government of Colombia reported that in 2000, the textile industry had 354 establishments and the apparel industry had more than 5,000 establishments, including 25 maquiladoras (table J-6).⁴ Many of the maquiladoras operate in Colombia's free-trade zones. In 2001, the

¹ Prepared by Laura Rodriguez, Office of Industries.

² U.S. and Foreign Commercial Service, "Colombia - Country Commercial Guide FY 2002," found at <http://www2.usatrade.gov>, retrieved Oct. 30, 2002.

³ "Colombia: Local Industry and Market," *Export Advantage*, found at <http://web.ita.doc.gov/tacgi/overseas.nsf>, retrieved Jan. 23, 2003.

⁴ Maquilas are plants in developing countries that assemble imported goods such as cut garment parts from the United States and return the goods to the originating country for further processing or packaging and distribution. Numerous subcontractors also function as apparel maquilas. Director of Marketing, Colombia Trade Bureau, facsimile to USITC staff, Feb. 7, 2003.

Colombian textile and apparel sector reportedly produced an estimated 800 million square meters of fabrics and approximately \$1.1 billion of apparel.⁵

Anticipation of enactment of the ATPDEA prompted the Colombian textile and apparel sector to increase export production capacity for the U.S. market. Dyeing and finishing capacity that had been directed principally to the domestic market has been expanded to boost exports. Colombia's textile and apparel sector has also been implementing programs to ensure compliance with labor, social, and environmental codes, criteria increasingly used by U.S. companies in selecting foreign partners.⁶

Colombia's apparel industry is known as a high-quality, just-in-time provider, particularly for women's underwear, babies' apparel, and swimwear.⁷ Recognizing that global competition will intensify after quotas are eliminated in 2005, Colombia's apparel industry has been shifting its focus from basic garments to higher end, fashion items at competitive prices and offering full-package programs that involve much greater coordination between textile and apparel producers.⁸ Efforts to expand and strengthen the linkages between the textile and apparel industries have therefore become a priority.⁹

Colombia's apparel producers are known for their dependability and quality control (their facilities meet ISO 9000 or ISO 9002-4 certification requirements - i.e., internationally recognized standards for world class production).¹⁰ Colombian apparel producers offer a 4- to 6-week garment production and delivery cycle and rapid transportation--3 days by sea or 3 hours by air. Transportation efficiency may be boosted if the apparel industry implements plans to take advantage of the highly efficient and sophisticated airfreight infrastructure established by Colombia's cut flower export industry.¹¹

Factors of production

Raw material

Colombian textile fiber consumption in 2000 consisted almost entirely of cotton (50 percent of the total, or 84,218 metric tons) and manmade fibers (48 percent).¹² Although Colombia has domestic supplies of cotton, internal crop and rural security problems coupled with growing international competition caused Colombia's cotton production to decline during

⁵ "Colombia: Local Industry and Market."

⁶ Ibid.

⁷ U.S. Department of State telegram 3809, "Colombia's Textile Industry After Quotas: Stagnant or Worse," prepared by U.S. Embassy, Bogota, Apr. 26, 2002.

⁸ Ibid. Full package programs typically refer to the type of sourcing arrangements that can provide the entire range of garment manufacturing from apparel design to all steps of textile production to distribution of the finished garment or any combination of these operations.

⁹ Director of Marketing, Colombia Trade Bureau, interview by USITC staff, Dec. 5, 2002.

¹⁰ Ibid.

¹¹ President, JCPenney Purchasing Corp., interview by USITC staff, Mar. 5, 2003.

¹² "Colombia: Local Industry and Market."

the 1990s.¹³ Consequently, cotton fiber imports now account for more than 65 percent of Colombia's cotton consumption. In addition, over 90 percent of the synthetic fibers used by Colombia's textile industry is also imported, primarily from the United States.¹⁴

Labor

Colombia has an ample supply of highly skilled textile and apparel workers. Colombia's apparel workers reportedly produce high-quality needlework on par with Asian competitors such as Hong Kong. Worker training is a priority in the apparel industry and the Colombian Government and private companies jointly hold permanent training programs designed to hone garment production skills. Employment in the textile and apparel sector totaled an estimated 600,000 workers, which includes direct and indirect jobs along the entire production chain (table J-6). Managers of both textile and apparel companies are local.¹⁵ Because firms in Colombia's textile and apparel sector range from small, family-owned firms to very large establishments, hourly wage rates for apparel and textile workers vary widely. According to government officials, apparel worker monthly wages in 2001 were estimated to average between \$206.10 (the legal minimum wage for a 48-hour week, including health and other benefits) and up to 10 to 15 percent more.¹⁶ Another source reported that textile worker wages in 2002 averaged \$1.82 per hour (including fringe benefits).¹⁷ One U.S. importer of apparel from Colombia reported that an apparel worker in Colombia earns about \$160 per month (including benefits), whereas a textile worker typically earns about \$240 per month.¹⁸

Technology

Colombia had about one-half of the total installed capacity of all the Andean countries in terms of short staple spindles, and the second-largest capacity in terms of long-staple spindles.¹⁹ Colombia's apparel industry currently uses 75 percent of its installed capacity. Colombia's textile companies are actively seeking to upgrade their technology and redesign their production systems in order to raise their productivity levels.²⁰ Views are mixed concerning the actual level of manufacturing technology currently used by Colombia's textile and apparel sector. Some industry sources report that textile and apparel equipment

¹³ U.S. and Foreign Commercial Service, "Colombia: The Textile Sector: Market Briefs Update."

¹⁴ U.S. Department of State telegram 3809, "Colombia's Textile Industry After Quotas."

¹⁵ Information in this paragraph is mainly from the Director of Marketing, Colombia Trade Bureau, facsimile to USITC staff, Feb. 7, 2003.

¹⁶ Another source estimates wage rates for assembly workers to average under \$1 per hour. Doreen Hemlock, "Apparel Trade Seen as Tool Against Violence," *South Florida Sentinel*, Feb. 2, 2002, found at <http://www.sun-sentinel.com/business/local/sfl-sbcolombia02feb02>, retrieved Feb. 27, 2003.

¹⁷ Werner International Management Consultants, "Spinning and Weaving Labor Cost Comparisons 2002."

¹⁸ Representative of a U.S. apparel company, teleconference by USITC staff, Feb. 7, 2003.

¹⁹ ITMF, *International Textile Machinery Shipment Statistics*, 2001.

²⁰ Jerry Haar and Sylvia Reyes, "Trade Liberalization and Market Competitiveness of the Colombian Apparel Industry," *Multinational Business Review*, Fall 2002, p. 16.

urgently needs refurbishing to comply with U.S. buyers' requirements.²¹ Colombian Government officials rank the current level of Colombia's manufacturing technology as fairly high--at about a 4.0 on a scale of 5 for most apparel production and about 3.8 for textile production.²²

Investment

Most firms in Colombia's textile and apparel sector are owned by Colombians.²³ Colombian producers of manmade fibers reportedly are foreign-owned or have foreign capital investment--Dupont (USA), ENKA de Colombia, S.A.(Mexico), and Bayer (Germany), which produce fibers, and Coats Cadena (UK), which produces yarns and threads. Colombia's textile and apparel sector is trying to attract foreign direct investment in order to finance the expansion of production capacity for products in which it is particularly competitive, such as fabrics (twills, sheeting, corduroy, denim, and poplin). Colombia still faces challenges, however, in overcoming investors' concerns about security dangers and their perception of Colombia as a high-risk country.²⁴

Government Policies

Domestic policies

The Colombian Government over the years has implemented a number of programs and incentives designed to improve the textile and apparel sector's global competitiveness. The Vallejo Plan, established in the 1960s, is a special import program that allows the tariff-free importation of raw materials for use in finished products that are to be exported.²⁵ Free-trade zones were also established that permit (1) exemption from income tax on all export earnings; (2) exemption from all customs duties and value-added taxes on goods and services brought into the zone; and (3) the right to exchange, hold, and negotiate foreign currency and to open domestic or foreign bank accounts in foreign currency. The free-trade zones also allow the exemption from income tax on all export earnings.²⁶ More recently, the Colombian Government has streamlined customs procedures, privatized and expanded free trade zones, and expanded foreign lines of credit and working capital for exports. The Government's

²¹ "Colombia Could Take Advantage of U.S. Duty-Free Treatment," *EmergingTextiles.com*, Aug. 22, 2002, found at <http://www.emergingtextiles.com>, retrieved Aug. 28, 2002.

²² In the apparel industry, the level of technology used in producing lingerie and other highly value-added products is, however, higher--averaging 4.5. Colombia's garment producers also use advanced Gerber fabric cutting systems extensively. In the textile industry, a higher level of technology--averaging 4.5 is used in knit fabric production.

²³ Except as noted, information in this paragraph is from Director of Marketing, Colombia Trade Bureau, interview by USITC staff, Dec. 7, 2002, and facsimile to USITC staff, Feb. 7, 2003.

²⁴ U.S. Department of State, "Background Note: Colombia," Apr. 4, 2002; found at <http://www.state.gov>, retrieved June 25, 2003; "Colombia - Economic Outlook," *Caribbean/Latin American Profile 2003* (Miami, FL: Caribbean Publishing Co.), p. D-28; and ***.

²⁵ Ramiro Botero Henao, "Colombia," *Apparel Industry International*, Sept. 1999, found at <http://www.aiimag.com/aiieng/archives/0999/sept99stor4.html>, retrieved Sept. 2000.

²⁶ President, ProExport Colombia, slide presentation sent to USITC staff, Dec. 7, 2002.

trade bureau, ProExport, promotes textile and apparel exports by facilitating business relationships between U.S. manufacturers, retailers, and buyers, and Colombian textile and apparel producers.²⁷

Trade policies

As a result of the implementation of the ATPDEA in October 2002, Colombia's apparel exports to the United States are predicted to grow by \$200 million in 2003 and 2004 (see the "overview" at the beginning of this appendix for information on ATPDEA).²⁸ In recent years, Colombia has entered into several multilateral and bilateral free-trade agreements to promote and facilitate trade. The most significant of these agreements are those with the Andean Community (ANCOM), whose members include Venezuela, Ecuador, Peru, and Bolivia; the Latin American Integration Association (LAIA) with Argentina, Brazil, Mexico, Chile, Paraguay, Uruguay, El Salvador, Costa Rica, Guatemala, Nicaragua, Honduras, and Cuba; the G-3 (Colombia, Mexico, and Venezuela); and the Colombia-Chile bilateral agreement. These agreements established measures such as assigning a common external tariff and eliminating duties on products manufactured and traded within the region. Colombia exports a significant portion of its textile and apparel products to its Latin American neighbors and therefore these agreements have been important for these export sales.

Colombia's textile and apparel sector benefits from duty-free access to the EU market under the EU Generalized System of Preferences until 2004.²⁹ To expand export sales to the EU market, ProExport has brought specialists from Spain, Italy, Germany, and France to train Colombian manufacturers in design, cutting, and sewing. Training, market research, production adaptation, and trade missions have also been set up with positive results, especially in the United Kingdom, where Colombia's textile and apparel exports have doubled. The EU market remains a challenge, however, because of its distance and competition from significant international producers in Eastern Europe.

Foreign Trade

Colombia's trade surplus in textiles and apparel rose by 7 percent during 1997-2001 to \$208 million, as Colombia's exports grew by 13 percent to \$835 million and imports rose by 15 percent to \$627 million (table J-6). The United States is Colombia's largest trading partner in sector goods, and apparel exports to the United States accounted for most of the trade between the two countries. Colombia has had a trade surplus with the United States for many years.

²⁷ Jerry Haar and Silvia Reyes, "Trade Liberalization and Market Competitiveness of the Colombian Apparel Industry, *Multinational Business Review*, Fall 2002, p. 16.

²⁸ "Colombia Could Take Advantage of U.S. Duty-Free Treatment."

²⁹ Information in the paragraph is mainly from Director of Marketing, Colombia Trade Bureau.

Imports

Textiles accounted for 88 percent (\$553 million) of Colombia's imports in 2001. The United States was the leading supplier of yarn and fabric to Colombia during 1997-2001, although its share of Colombian textile imports declined from 26 percent to 17 percent in the period. United Nations trade data show that other leading suppliers of yarn and fabric to Colombia in 2001 were Brazil (11 percent), Taiwan (8 percent), and Korea (6 percent). Colombia's imports of apparel fell by 28 percent during 1997-2001 to \$75 million. Leading suppliers of apparel to Colombia in 2001 were the United States (\$24 million) and China (\$18 million) with respective shares of 32 and 24 percent. In contrast to the 59-percent decline in Colombia's apparel imports from the United States to \$24 million during 1997-2001, Colombia's apparel imports from China more than quintupled to \$18 million.

Exports

The United States was Colombia's leading export market with a 39-percent market share in 2001 (table J-7). U.S. imports of textiles and apparel from Colombia rose 16 percent during 1997-2000 to 117 million square meters equivalent (SMEs), and then fell 18 percent in 2001 to 96 million SMEs (table J-8). In 2002, sector imports from Colombia partially recovered, rising 14 percent to 110 million SMEs.

The leading U.S. apparel imports from Colombia were women's and men's cotton pants, cotton knit shirts, men's and boys' wool coats and trousers, and babies' garments. The trade-weighted average duty on U.S. imports of textiles and apparel from Colombia was 15.4 percent ad valorem, lower than that of its Andean neighbors. Colombia's lower trade-weighted average duty may be attributed in part to Colombia's use of larger quantities of U.S. inputs--which accounted for almost half of the total value of 9802 apparel imports used by Colombia in the production of apparel for export to the United States. About 51 percent or \$176 million of U.S. textile and apparel imports from Colombia in 2001 involved apparel production-sharing trade, down significantly from 74 percent or \$257 million in 1997. It is likely that part of this decline in 9802 apparel imports from Colombia reflected a shift in Colombia's textile and apparel trade to full-package trade.

Colombia faces U.S. import quotas on cotton printcloth and men's and boys' wool suits. The quota on cotton printcloth has had very low or zero quota fill rates in recent years. The quota on the wool suits, however, slightly exceeded a 90 percent fill rate in 2001. The EU imposes no quotas on imports from Colombia.

Table J-6
Colombia: Statistical profile of textile and apparel sector and foreign trade, 1997-2001

Item	1997	1998	1999	2000	2001
Textile and apparel share of manufacturing value-added (percent)	11	12	12	(¹)	(¹)
Number of establishments:					
Textiles	(¹)	(¹)	(¹)	354	(¹)
Apparel	(¹)	(¹)	(¹)	5,000	(¹)
Total	(¹)	(¹)	(¹)	5,354	(¹)
Number of textile and apparel workers	(¹)	(¹)	(¹)	600,000	(¹)
Installed spinning capacities:					
Short-staple spindles (1,000)	950	950	950	950	950
Long-staple spindles (1,000)	35	35	37	37	37
Open-end rotors (1,000)	25	25	25	25	25
Installed weaving capacities:					
Shuttleless looms (number)	4,000	4,000	4,000	4,000	4,000
Shuttle looms (number)	8,500	8,500	8,500	8,500	8,500
Purchases of large circular knitting machines	(¹)	62	62	100	80
Average total labor cost per operator hour	(¹)	(¹)	(¹)	\$1.92	² \$1.82
Foreign trade:					
Exports:					
Textiles (million dollars)	290.7	265.2	235.5	264.7	260.8
Apparel (million dollars)	446.4	433.6	428.9	523.2	574.3
Total (million dollars)	737.1	698.8	664.4	788.0	835.1
Imports:					
Textiles (million dollars)	440.5	466.5	412.4	557.0	552.6
Apparel (million dollars)	102.9	87.6	81.4	79.0	74.5
Total (million dollars)	543.3	554.1	493.8	636.1	627.1
Trade balance:					
Textiles (million dollars)	-149.8	-201.3	-176.8	-292.3	-291.7
Apparel (million dollars)	343.6	346.0	347.5	444.2	499.8
Total (million dollars)	193.8	144.8	170.7	151.9	208.1

¹ Not available.

² Represents 2002 data for spinning and weaving and includes social benefits (Werner International Management Consultants, "Spinning and Weaving Labor Cost Comparisons 2002," Reston, VA).

Note.—Because of rounding, figures may not add to totals shown.

Source: Establishment and employment from Director of Marketing, Colombia Trade Bureau, facsimile to USITC staff Feb. 7, 2003; other industry data from International Textile Manufacturers Federation (Zurich), *International Textile Machinery Shipment Statistics*, vol. 25/2002, and selected back issues, except as noted. Trade data are United Nations data as reported by Colombia.

Table J-7
Colombia: Exports of textiles and apparel, by selected markets, 1997-2001

Item and market	1997	1998	1999	2000	2001
<i>Million dollars</i>					
Textiles (SITC 65):					
Quota markets:					
United States	65	64	70	64	57
European Union	33	30	25	23	23
Canada	1	1	1	3	5
Subtotal	99	95	96	89	85
All other:					
Venezuela	79	65	63	68	70
Ecuador	35	36	19	33	42
Mexico	8	13	13	24	19
Other	70	56	44	51	45
Subtotal	191	171	139	176	175
Grand total	291	265	236	265	261
Apparel (SITC 84):					
Quota markets:					
United States	243	227	238	275	269
European Union	29	29	27	25	24
Canada	1	1	1	1	2
Subtotal	273	257	266	301	295
All other	174	177	162	222	280
Grand total	446	434	429	523	574
Textiles and apparel:					
Quota markets:					
United States	308	291	308	338	327
European Union	62	58	53	47	47
Canada	2	2	2	4	6
Subtotal	372	351	363	390	380
All other	365	348	302	398	455
Grand total	737	699	664	788	835
<i>Percent</i>					
Share of exports going to quota markets:					
Textiles	34	36	41	34	33
Apparel	61	59	62	58	51
Average	51	50	55	50	46

Note.—Because of rounding, figures may not add to totals shown.

Source: Compiled from United Nations data.

Table J-8

Textiles and apparel: U.S. general imports from Colombia, by specified product categories,¹ 1997-2002

Cat. No.	Description	1997	1998	1999	2000	2001	2002
<i>1,000 square meters equivalent</i>							
0	Textiles and apparel, total	100,347	96,070	112,570	117,338	96,518	109,619
1	Apparel	84,315	83,069	94,217	92,804	75,973	82,922
2	Textiles	16,032	13,002	18,353	24,534	20,545	26,697
30	Cotton textiles and apparel	46,061	46,719	59,396	60,245	58,145	64,936
40	Wool textiles and apparel	6,095	4,791	3,931	3,980	3,686	3,732
60	Manmade-fiber textiles and apparel	47,455	43,585	48,786	52,374	34,379	40,758
239	Babies' apparel	5,905	5,825	4,667	6,266	4,036	3,687
332	Cotton hosiery	1,365	1,768	3,305	3,769	3,575	6,459
338	Cotton knit shirts, men/boys	1,686	2,831	3,573	4,197	4,090	2,839
339	Cotton knit shirts, women/girls	812	1,094	1,009	2,382	1,100	880
347	Cotton trousers, men/boys	6,360	9,228	12,200	13,675	12,612	13,810
348	Cotton trousers, women/girls	3,831	4,077	4,997	8,575	9,188	10,055
352	Cotton underwear	14,346	11,851	19,045	8,583	11,109	14,265
361	Cotton sheets	371	1	1,240	2,723	3,534	2,888
363	Cotton terry and other pile towels	1,726	1,919	2,200	2,249	2,512	3,139
369	Other cotton manufactures	1,670	1,244	1,011	1,408	1,051	1,283
433	Wool suit-type coats, men/boys	1,701	1,816	1,801	2,138	1,787	1,613
443	Wool suits, men/boys	572	508	379	429	561	606
447	Wool trousers, men/boys	511	658	722	822	684	972
632	Manmade-fiber hosiery	507	2,213	2,956	3,283	653	318
635	Manmade-fiber coats, women/girls	2,136	1,691	653	833	497	438
636	Manmade-fiber dresses	1,317	972	2,378	2,703	1,529	2,921
647	Manmade-fiber trousers, men/boys	898	1,680	1,115	1,357	1,257	844
648	Manmade-fiber trousers, women/girls	1,382	1,801	1,911	1,887	1,856	1,117
651	Manmade-fiber nightwear	959	828	1,319	1,192	795	3,298
652	Manmade-fiber underwear	19,181	15,289	12,992	8,406	3,366	4,290
659	Other manmade-fiber apparel	4,374	5,016	7,100	8,923	7,448	5,065
666	Other manmade-fiber furnishings	5,747	3,446	5,231	7,053	7,140	8,832

¹ To administer the U.S. textiles and apparel quota programs, articles are grouped under 3-digit category numbers, which cover many 10-digit statistical reporting numbers under which goods are classified for statistical purposes in the Harmonized Tariff Schedule of the United States (HTS). The 1-digit and 2-digit numbers represent specific levels of import aggregation for articles covered by the quota program (e.g., the number "1" represents total imports of apparel, while "31" represents total imports of cotton apparel).

Source: Compiled from official statistics of the U.S. Department of Commerce, which are available on its website at <http://otexa.ita.doc.gov/>.

Ecuador¹

Overview

The textile and apparel sector in Ecuador is small, but sector products are among the country's top export priorities.² The sector accounted for about 3 percent of its gross domestic product (GDP), 19 percent of manufacturing (GDP), and an estimated 4 percent of the labor force in 2002.³ The sector accounted for only 2 percent of Ecuador's total exports in 2001. The country's economy is based largely on oil production, with oil revenues accounting for more than 40 percent of Ecuador's exports in 2001 and 34 percent of the country's fiscal revenues.⁴

Industry Profile

Industry structure and performance

Ecuador's textile and apparel sector is largely vertically integrated, with spinning, weaving, cutting, and sewing operations usually managed by the same firm. Ecuador is an especially strong producer of spun yarn with 98 percent of its yarn spun from cotton imported from the United States. The sector produces spun yarns, fabrics, household items, and apparel, and its products are known for their "high quality, innovative designs, and low cost."⁵ Ecuador's textile industry is small; production totaled only 42,000 tons in 2001 and was targeted principally for the domestic market. Textile production is concentrated in the Sierra region with 57 percent of textile firms in Quito, 17 percent in Cuenca, 14 percent in Ambato, and 11 percent in Guayaquil. Ecuador's apparel industry is highly fragmented and consists of many family-owned operations located principally in Quito, Cuenca, and Ambato.⁶

Data on the number of firms and workers in Ecuador's textile and apparel sector vary widely and are not always current, partly reflecting the predominance of family-owned firms. Estimates for the number of firms range from 320 companies for the entire textile and apparel sector in 1999 to 1,000 factories for the apparel industry alone in 2000 (reportedly, 5 percent of these apparel factories were large operations, 70 percent were medium-sized,

¹ Prepared by Laura Rodriguez, Office of Industries.

² According to the U.S. Embassy in Quito, Ecuador's export priorities are petroleum, followed by (in order) agricultural, fishery, forestry, and textile and apparel products, among others. See U.S. Department of State telegram 3693, "Ecuador's Export Priorities," prepared by U.S. Embassy, Quito, Oct. 31, 2002. Labor force data are from U.S. Department of State telegram 1926, "Ecuador's Textile Industry," prepared by U.S. Embassy, Quito, June 5, 2002.

³ GDP data are from the Embassy of Ecuador, written submission to the Commission, Feb. 4, 2003.

⁴ U.S. Department of State telegram 3693, "Ecuador's Export Priorities."

⁵ "Textiles --Sector Overview," found at <http://www.ecuadorexports.com/textiles.htm>, retrieved Dec. 31, 2002.

⁶ "Ecuador: Best Prospects for Textile Industry," *International Market Insight Reports*, Aug. 2, 1999, found at <http://proquest.umi.com>, retrieved Nov. 4, 2002.

and 25 percent were small).⁷ Estimates for the number of textile and apparel workers range from 20,000 to 100,000.⁸

Ecuador has an extensive system of all-weather roads linking populated parts of the country and has several ports, including the Port of Guayaquil on the Pacific Ocean that handles most of the country's trade. Plans are underway to upgrade the airports of Quito and Guayaquil to facilitate trade and to repair the ports and many roads damaged by flooding and landslides related to El Niño. The damage reportedly caused losses in Ecuador's agricultural sector, contributed to a slowdown in Ecuador's GDP in the late 1990s, and increased Ecuador's foreign debt, which reached \$16 billion by April 1999. Ecuador's railroad system has reportedly been inoperative for a decade, following damage by a major earthquake.⁹ Improving the country's infrastructure is considered critical for boosting investor confidence.¹⁰ Eliminating corruption and inefficiency in Ecuador's customs service are also viewed as priorities for enhancing trade.¹¹

Factors of production

Most Ecuadorian textile production centers on cotton and cotton-blended fabrics as well as some wool. Because Ecuador's domestic cotton production meets only 10 percent of demand, the Ecuadorian textile and apparel sector must import the vast majority of its cotton consumption.¹² The United States is the largest supplier of cotton and other fibers to Ecuador. Other leading suppliers include Mexico, Peru, Korea, and Colombia.

A key competitive advantage of Ecuador's textile and apparel sector reportedly is its ample supply of skilled workers who are capable of producing quality items delivered on time.¹³ Manufacturing wage rates in Ecuador are generally low (Ecuador's minimum wage, including benefits, ranges from \$140 to \$160 per month),¹⁴ with average earnings for

⁷ "Costa Rica, Dominican Republic, Ecuador," *Apparel Industry*, Sept. 2000, vol. 61, issue 9, p. 52, found at <http://web22.epnet.com>, retrieved Nov. 4, 2002.

⁸ Embassy of Ecuador, "Ecuador's Textile Sector and Trade Preferences," *Ecuador in Brief*, vol. 1, No. 3, July-Sept. 2001, p. 5, and U.S. Department of State telegram 1926, "Ecuador's Textile Industry," prepared by U.S. Embassy, Quito, June 5, 2002.

⁹ U.S. and Foreign Commercial Service, "Ecuador - Economic Trends and Outlook," *Ecuador Country Commercial Guide FY 2002*, found at <http://www2.usatrade.gov>, retrieved Oct. 30, 2002.

¹⁰ "Preparing Infrastructure for International Trade," *Special International Report - Washington Times*, Apr. 21, 1999, found at <http://www.ecuadornumismatics.com/...ly/dollarization/washtimes/30.html>, retrieved Dec. 31, 2002.

¹¹ U.S. and Foreign Commercial Service, "Ecuador - Country Commercial Guide FY 2002."

¹² Unfavorable weather conditions caused by El Niño during the late 1990s led to declines in Ecuador's domestic cotton production. U.S. and Foreign Commercial Service, "Best Prospects for Non-Agricultural Foods and Services," *Ecuador Country Commercial Guide FY 2002*, found at <http://www2.usatrade.gov>, retrieved Oct. 30, 2002.

¹³ "Ecuador: Textile Industry," Corporation for the Promotion of Exports and Investments (CORPEI), found at <http://www.corpei.org>, retrieved Dec. 30, 2002, and "Why Invest in Ecuador," *Special International Report - Washington Times*, Apr. 21, 1999, found at <http://www.ecuadornumismatics.com>, retrieved Dec. 31, 2002.

¹⁴ "Ecuador," *Caribbean/Latin America Profile 2003*, p. D-38.

Ecuadorian textile and apparel workers below \$1.00 per hour.¹⁵ Since Ecuador adopted the dollar as its national currency in 2000, however, labor rates (as well as utility and raw material costs) have risen, making textile and apparel products less competitive relative to those in Colombia and Venezuela, which have been among Ecuador's leading export markets for textiles and apparel and whose currencies declined sharply in 2002.¹⁶

Ecuador's installed capacity of short-staple and long-staple spindles and of open-end rotors is smaller than that of regional competitors Peru and Colombia, which have much larger industries, but is more than triple that of Bolivia. Information about the overall level of manufacturing technology in Ecuador's textile and apparel sector is not readily available. Industry sources report, however, that some companies are continuously striving to improve their manufacturing processes through the use of state-of-the-art technology.¹⁷

Investment

To date, Ecuador's textile and apparel sector appears to have received little foreign investment; most foreign direct investment is directed to Ecuador's oil sector.¹⁸ The World Bank has approved grants for the Government of Ecuador to support and promote the export initiatives of medium and small Ecuadorian enterprises; however, the manufacturing sector (including textiles and apparel) received less than 2 percent of the \$7.9 million invested in this project during October 1999-March 2001.¹⁹

The enactment of the ATPDEA in August 2002 was positively viewed by Ecuadorian textile producers and is expected to benefit Ecuador's textile and apparel sector by increasing access to the U.S. market.²⁰ Information is not yet readily available concerning the types of business arrangements that may emerge between U.S. and Ecuadorian firms or the amount of foreign direct investment that may result from implementation of the ATPDEA.

Government Policies

Since 1990, the Ecuadorian Government has implemented a number of initiatives designed to increase Ecuador's ability to attract foreign investment and enhance trade. The Government established free-trade zones (FTZs) and implemented a maquila program to

¹⁵ International Labor Organization, "Wages in Manufacturing - Earnings Per Hour/Dollars," found at <http://laborsta.ilo.org/cgi-bin/brokerv8.exe>, retrieved Oct. 21, 2002. The latest available data on wage rates in Ecuador's textile and apparel sector were for 1997, when average hourly earnings were \$0.83 for textile workers and \$0.47 for apparel workers.

¹⁶ Scott Wilson, "Dollar Looms Over Ecuador Election," *Washington Post*, Oct. 20, 2002, p. A 26.

¹⁷ "Ecuador: Textile Industry," CORPEI, found at <http://www.corpei.org>, retrieved Dec. 30, 2002.

¹⁸ U.S. Department of State telegram 3046, "Ecuador: Input for Draft 2000 Triennial Report to Congress for Ecuador," prepared by U.S. Embassy, Quito, Aug. 31, 2002.

¹⁹ Embassy of Ecuador, "The Matching Grants Program for Export Promotion," *Ecuador in Brief* - vol. 1, No. 2, July-Sept. 2201, p. 4.

²⁰ U.S. Department of State telegram 2525, "Tuna Types Aside, Ecuador is Satisfied with ATPA," July 31, 2002, and telegram 3693, "Ecuador's Export Priorities," Oct. 31, 2002, prepared by U.S. Embassy, Quito.

grant duty-free treatment for goods imported on a temporary basis to be manufactured, assembled, converted, or repaired and re-shipped abroad. Ecuador has five FTZs that encourage the export of finished and semiprocessed goods; the primary FTZ is in San Lorenzo, near the Colombian border. The FTZs provide for the duty-free import of raw materials and machinery that are used in the production of exported goods. In addition, all business transactions that occur in the FTZ are tax-exempt and free from currency controls.²¹ The maquila program also exempts such goods from Central Bank import permit requirements. Ecuador's maquila operations are concentrated in the textile and fishing industries.

The Investment Promotion and Guarantee Law passed in December 1997 helps to protect the rights of foreign investors and ensure treatment similar to that of Ecuadorian nationals. Direct foreign investment may be made in any manufacturing sector without prior authorization, and foreign investors are able to transfer abroad the net profits from their investments.²² Adoption of the dollar in January 2000 further enhanced the ability of the country to attract foreign investment by eliminating foreign currency risks. Ecuador adopted the U.S. dollar as its national currency in 2000 to reduce inflation and to stabilize and bolster its economy, which had experienced large currency devaluations, low oil prices, depleted banana crops, and damage caused by El Niño. The Ecuador Government also began a program of comprehensive economic reform to temper the inflation that had plagued the economy during the late 1990s.²³

Ecuador benefits from preferential access to the U.S. market for textiles and apparel under the ATPDEA (see "overview" at the beginning of this appendix for information on the U.S. legislation). Ecuador is a member of the Andean Community,²⁴ and has bilateral free-trade agreements with Colombia and Chile. Ecuador benefits from preferential access for most of its primary exports to the European Union (EU) under its Generalized System of Preference Program.²⁵

²¹ "Ecuador," *Caribbean/Latin America Profile 2003* (Miami, FL: Caribbean Publishing Ltd., 2002), p. D-38.

²² "Investment Guide - Investment in Ecuador," found at www.ecuadorexports.com/investment.htm, retrieved Dec. 31, 2002 and "Why Invest in Ecuador - A Special International Report," *The Washington Times*, found at <http://www.ecuadornumismatics.com>.

²³ U.S. Department of State telegram 3046, "Ecuador: Input for Draft 2000 Triennial Report to Congress."

²⁴ The Andean Community is made up of Bolivia, Colombia, Ecuador, Peru, and Venezuela, and is a Customs Union—the goods of its member countries circulate unimpededly throughout its territory free of duties, while imports outside the subregion pay a common tariff. See "Who Are We - Andean Community," found at <http://www.comunidadanina.org/ingles/who.htm>, retrieved Apr. 24, 2003.

²⁵ "Ecuador," *Caribbean/Latin America Profile 2003*, p. D-38.

Foreign Trade

Ecuador's textile and apparel trade deficit more than doubled during 1997-2001 to \$113 million, as imports rose by 57 percent, to \$184 million, while exports fluctuated within a relatively narrow range, increasing by 6 percent during the period to \$70 million (table J-9). Ecuador's textile and apparel sector relies on imports for its yarn and fabric requirements. Ecuador's exports of sector goods consist primarily of textile products. Unlike its Andean neighbors, for which apparel accounts for a substantial share of their sector exports, apparel accounted for a relatively small share, 36 percent, of Ecuador's sector exports in 2001. Ecuador's key trading partners include Colombia, the United States, China, Taiwan, and Korea.

Imports

The growth in Ecuador's imports of sector goods during 1997-2001 was accounted for by textile products, imports of which rose by 60 percent to \$137 million. According to United Nations data, the leading foreign suppliers of textiles to Ecuador in 2001 were Colombia (32 percent), the United States (14 percent), and China (8 percent). Ecuador's imports of apparel rose by 46 percent during 1997-2001 to \$47 million. Leading foreign suppliers of apparel in 2001 were Colombia (46 percent), China (14 percent), Peru (11 percent), and the United States (5 percent).

Exports

Ecuador's exports of sector goods consist primarily of textiles, which accounted for 64 percent of the total in 2001 (table J-10). Apparel accounted for the remainder (36 percent) of the sector exports. According to United Nations data for 2001, Ecuador's leading textile export markets were Colombia (64 percent), the United States (9 percent), Venezuela (7 percent) and Peru (4 percent); Ecuador's major apparel export markets were the United States (48 percent) and the EU (16 percent). The United States and the EU do not maintain quotas on imports of textiles and apparel from Ecuador.

U.S. imports of textiles and apparel from Ecuador fluctuated widely during 1997-2002, rising by 5 percent to 14.9 million SMEs (table J-11). In terms of value, however, imports of sector goods declined by 11 percent during 1997-2002 to \$16 million. Apparel accounted for 66 percent of the quantity but 84 percent of the value of sector imports from Ecuador in 2002. The product categories with the greatest growth during 1997-2002 included manmade-fiber hosiery, cotton knit shirts, and cotton trousers. The trade-weighted average U.S. duty on imports of sector goods from Ecuador in 2001 was 11.2 percent ad valorem (7.4 percent for textiles and 11.8 percent for apparel).

U.S. imports of apparel from Ecuador entering under production-sharing arrangements (as assembled goods) under HTS heading 9802.00.80²⁶ more than doubled (34 percent of total

²⁶ This program provides a duty exemption for U.S. components returned to the United States in the form of finished articles. In general, the duty is assessed only on the value-added abroad.

U.S. apparel imports from Ecuador in 2001), during 1997-2001, to \$7.8 million, and then declined by 60 percent in 2002 to \$31 million, or 16 percent of U.S. apparel imports from Ecuador. Knit apparel dominated 9802.00.80 apparel imports from Ecuador in 2001, with a 93-percent share; woven apparel, accounted for only 7 percent of the total. These shares had changed significantly from 1997, when knit apparel imports from Ecuador accounted for 42 percent and woven apparel accounted for 48 percent of total U.S. imports of apparel from Ecuador. In 2002, U.S. apparel imports from Ecuador under HTS heading 9802.00.80 consisted almost entirely of apparel reported in category 659 (other manmade-fiber apparel).

Table J-9

Ecuador: Statistical profile of textile and apparel sector and foreign trade, 1997-2001

Item	1997	1998	1999	2000	2001
Installed spinning capacities:					
Short-staple spindles (<i>number</i>)	200,000	200,000	200,000	200,000	200,000
Long-staple spindles (<i>number</i>)	35,000	35,000	35,000	35,000	35,000
Open-end rotors (<i>number</i>)	9,000	9,000	9,200	9,000	9,000
Installed weaving capacities:					
Shuttleless looms (<i>number</i>)	1,000	1,000	(¹)	1,000	1,000
Shuttle looms (<i>number</i>)	3,000	3,000	(¹)	3,000	3,000
Purchases of large circular knitting machines	(¹)	21	11	33	27
Foreign trade:					
Exports:					
Textiles (<i>million dollars</i>)	42.6	34.5	36.8	40.3	44.9
Apparel (<i>million dollars</i>)	23.5	22.1	18.6	19.8	25.5
Total (<i>million dollars</i>)	66.2	56.6	55.4	60.1	70.4
Imports:					
Textiles (<i>million dollars</i>)	85.3	109.4	74.9	112.8	136.9
Apparel (<i>million dollars</i>)	32.0	39.1	19.2	22.7	46.8
Total (<i>million dollars</i>)	117.3	148.5	94.2	135.5	183.7
Trade balance:					
Textiles (<i>million dollars</i>)	-42.6	-74.8	-38.1	-72.5	-92.0
Apparel (<i>million dollars</i>)	-8.5	-17.1	-0.7	-3.0	-21.4
Total (<i>million dollars</i>)	-51.1	-91.9	-38.8	-75.4	-113.3

¹ Not available.

Note.—Because of rounding, figures may not add to totals shown.

Source: Industry data compiled from International Textile Manufacturers Federation (Zurich), *International Textile Machinery Shipment Statistics*, vol. 25/2002, and selected back issues. Trade data are United Nations data as reported by Ecuador.

Table J-10
Ecuador: Exports of textiles and apparel, by selected markets, 1997-2001

Item and market	1997	1998	1999	2000	2001
<i>Million dollars</i>					
Textiles (SITC 65):					
Quota markets:					
United States	8	2	4	4	4
European Union	2	1	1	1	1
Canada	(¹)	(¹)	(¹)	(¹)	(¹)
Subtotal	10	3	5	5	5
All other:					
Colombia	22	22	19	23	29
Venezuela	2	1	2	2	3
Peru	(¹)	1	3	3	2
Other	8	6	8	8	7
Subtotal	33	31	32	36	40
Grand total	43	35	37	40	45
Apparel (SITC 84):					
Quota markets:					
United States	10	8	7	6	12
European Union	7	6	5	4	4
Canada	1	1	(¹)	(¹)	(¹)
Subtotal	17	14	12	10	16
All other	6	8	7	9	9
Grand total	24	22	19	20	25
Textiles and apparel:					
Quota markets:					
United States	18	10	10	11	16
European Union	8	6	6	4	5
Canada	1	1	(¹)	(¹)	(¹)
Subtotal	27	17	16	15	21
All other	39	39	39	45	50
Grand total	66	57	55	60	70
<i>Percent</i>					
Share of exports going to quota markets:					
Textiles	24	9	12	12	10
Apparel	73	64	63	52	64
Average	41	31	29	25	30

¹ Less than \$500,000.

Note.—Because of rounding, figures may not add to totals shown.

Source: Compiled from United Nations data.

Table J-11

Textiles and apparel: U.S. general imports from Ecuador, by specified product categories,¹ 1997-2002

Cat. No.	Description	1997	1998	1999	2000	2001	2002
<i>1,000 square meters equivalent</i>							
0	Textiles and apparel, total	14,176	10,307	12,513	16,397	18,004	14,919
1	Apparel	6,731	8,075	7,686	9,881	11,972	9,838
2	Textiles	7,445	2,233	4,827	6,517	6,032	5,081
11	Yarns	2,011	4	1,523	1,297	472	126
12	Fabrics	5,332	1,911	2,599	2,422	1,927	1,070
14	Other miscellaneous articles	102	317	704	2,798	3,634	3,884
30	Cotton textiles and apparel	11,580	7,518	7,366	8,007	7,281	4,877
60	Manmade-fiber textiles and apparel	1,579	2,013	4,484	7,623	9,948	9,414
338	Cotton knit shirts, men/boys	120	299	844	1,028	1,022	618
339	Cotton knit shirts, women/girls	109	6	326	351	401	126
347	Cotton trousers, men/boys	483	261	1,194	2,188	1,876	1,079
348	Cotton trousers, women/girls	37	21	92	118	255	275
351	Cotton nightwear	3,436	4,540	716	205	1,127	1,331
632	Manmade-fiber hosiery	7	2	4	757	1,286	2,521
659	Other manmade-fiber apparel	740	1,636	3,428	3,683	4,358	2,793
666	Other manmade-fiber furnishings	5	2	218	1,492	3,060	3,823

¹ To administer the U.S. textiles and apparel quota programs, articles are grouped under 3-digit category numbers, which cover many 10-digit statistical reporting numbers under which goods are classified for statistical purposes in the Harmonized Tariff Schedule of the United States (HTS). The 1-digit and 2-digit numbers represent specific levels of import aggregation for articles covered by the quota program (e.g., the number "1" represents total imports of apparel, while "31" represents total imports of cotton apparel).

Source: Compiled from official statistics of the U.S. Department of Commerce, which are available on its website at <http://otexa.ita.doc.gov>.

Overview

Peru's textile and apparel sector accounted for 15.4 percent of manufacturing GDP in 2000, up from 12 percent in 1998. Peru's textile and apparel sector is vertically integrated from fiber to finished product. Textile and apparel manufacturing is a major source of employment for Peru--almost 10 percent of the population depends on the textile industry, which directly accounted for an estimated 150,000 workers in 2002.² Peru's textile and apparel sector has a unique competitive advantage in its domestic supplies of high-quality pima and tanguis cotton and wool produced from the hair of its indigenous alpaca, llama, and vicuna.

Peru's domestic market for textile and apparel is small and, therefore a significant share of Peru's textile and apparel production is exported. The United States has been Peru's largest export market in recent years. In 2001, 80 percent (\$382 million) of Peru's apparel exports were shipped to the United States. In 2001, Peru supplanted Colombia as the largest Andean supplier of textiles and apparel to the United States for the first time, accounting for 48 percent of the Andean textile and apparel exports to the United States.

Despite the relative strength of Peru's textile and apparel sector, it has been facing growing challenges in recent years. Government measures to open Peru's economy during the 1990s led to such increased competition from low-cost Asian imports that concern was voiced that the textile industry could shrink if safeguards were not imposed.³ U.S. trade preferences granted to Mexico and the Caribbean Basin countries under NAFTA and the CBTPA, respectively, further increased competition faced by Peru's textile and apparel products in the U.S. market. Finally, severe weather conditions arising from the 1997-98 El Niño damaged Peru's cotton crops and reduced Peru's cotton production, causing cotton demand to far exceed supply. Significant portions of Peru's infrastructure were also damaged and many roads, highways, bridges, and other transportation channels are still under repair.

Peru's textile and apparel sector has been anticipating new trade opportunities resulting from preferential access to the U.S. apparel market following implementation of the ATPDEA in October 2002. Industry sources in Peru have estimated that the ATPDEA could boost Peru's textile industry growth by 40 percent per year and generate 32,000 direct and 78,000 indirect new jobs (in cotton agriculture and related services and sectors) over the next 3 years.⁴

¹ Prepared by Laura Rodriguez, Office of Industries.

² Peruvian Government, written submission to the Commission, Feb. 3, 2003.

³ "Peruvian Textiles: Men of the Cloth," *Business Latin America*, Oct. 26, 1998, found at <http://db.eiu.com>, retrieved Nov. 4, 2002.

⁴ U.S. Department of State telegram 5903, "Report Card on ATPA and Peru," prepared by U.S. Embassy, Lima, Oct. 4, 2000.

Industry Profile

Industry structure and performance

Peru has an integrated textile and apparel sector—from the production of raw material inputs (cotton, alpaca, llama, and vicuna) and textile processing to apparel sewing and product delivery. The sector has a significant impact on the country's economy, partly because it is linked to the agricultural sectors for cotton cultivation and livestock for supplying fleece.⁵ Peru's largest apparel producers are in the Department of Lima; a few factories are in Arequipa. The Zarate Industrial Zone in Lima is the center of several leading clothing makers and suppliers of other textile inputs. The knitwear segment of the apparel industry has grown the most rapidly in recent years.⁶

Most of Peru's estimated 11,000 textile and apparel establishments are classified as micro-establishments with fewer than 10 employees, whereas only 13 establishments have more than 200 workers (table J-11, found at the end of this country profile).⁷ The portion of the industry involved in textile and apparel exports is highly concentrated. Industry sources reported that, in 2000, Peru had an estimated 900 textile and apparel exporting firms, of which 30 were vertically integrated firms that accounted for 70 percent of Peru's textile and apparel exports. Of these firms, 18 were large companies with annual exports of more than \$10 million each.⁸ In contrast, 875 small companies (with exports of less than \$1 million each) accounted for 9 percent of total textile and apparel exports. The degree of industrial integration is reportedly higher in Peru than anywhere in the Western Hemisphere, including the apparel cities in Mexico.⁹ Industry sources report that the level of interaction between large and small textile and apparel firms is high. Large companies often subcontract to small- and medium-sized firms, which, in turn, subcontract to micro-establishments for both domestic and export production.¹⁰ The capacity of Peru's apparel industry has expanded by double-digit growth in recent years, and was facilitated by the rise in Peru's imports of textile machinery, which totaled \$65 million in 2000.¹¹ According to the Government, because Peru's textile and apparel sector is highly informal, it is very difficult to measure the industry's production and consumption levels.¹²

Despite Peru's proximity to the United States, Peru's transportation and shipping costs are higher than those of its regional competitors. A few years ago, the Peruvian Government

⁵ Expoamerica, "Inclusion of Textiles and Apparel in the Andean Trade Preference Act: Contribution to the Battle Against Coca Production and Illegal Drug Trafficking," Sept. 2000, p. 17.

⁶ Mercedes Cortazar, "Economic Crisis Strangles Peru's Industry," *Apparel Industry Internacional*, July 1999, found at <http://www.aiimag.com/aiieng/archives/0799/jul99stor5.html>.

⁷ Peruvian Government, written submission to the Commission, Feb. 3, 2003.

⁸ Olga G. West, "Peru Moda to Focus on Expanding Market Horizons," *Bobbin*, May 2000, pp. 12-13.

⁹ U.S. and Foreign Commercial Service, "International Market Insight - Peru," 2001, found at <http://www.USATrade.gov>, retrieved Jan. 7, 2002.

¹⁰ Expoamerica, p. 13.

¹¹ U.S. and Foreign Commercial Service, "International Market Insight--Peru," 2001.

¹² Peruvian Government, written submission to the Commission, Feb. 3, 2003.

began to implement an extensive road reconstruction program (supported by bilateral and multilateral lending) that has improved the distribution of goods and services to and from Lima.¹³ Severe weather conditions caused by the 1997-98 El Nino, however, disrupted distribution networks by damaging roads, highways, bridges, water treatment plants, and schools. Political turmoil and a downturn in Peru's economy have delayed repairs that are estimated to total \$1 billion. Currently, expensive air transportation is the only way to convey goods in areas not served by the Pan America or Central Highways. Peru's voice and data communications are generally reliable; and although privatization of electrical utilities is incomplete, generating capacity in general and thermal capacity in particular has increased substantially. Peru no longer has frequent power outages that used to disrupt production. Industry sources report that water supply infrastructure in Lima and throughout Peru, however, needs to be expanded and improved and Peru's ports need to be modernized. Another challenge for Peru's textile and apparel sector has been financing costs reported to be among the highest in the region. High interest rates on loans and short, restrictive repayment periods have financially strained Peru's weaving mills.¹⁴

Peru's textile and apparel companies have been seeking to increase their presence in the global marketplace in recent years. Many are implementing new quality control programs and restructuring their production operations to increase efficiencies and reduce costs.¹⁵ In addition, before the implementation of the ATPDEA, Peruvian manufacturers had started emphasizing higher value-added products because they could not compete on price with textile and apparel products from Mexico and the Caribbean Basin countries that benefit from duty-free and quota-free preferential arrangements or with low-cost products from Asian suppliers.¹⁶

Factors of production

Raw materials

Peru's textile and apparel sector is founded on cotton production and on fine animal hair from llama, alpaca, and vicuna rearing. Peru has a distinct competitive advantage in its domestic supplies of high-quality pima and tanguis cotton. Cotton cultivation occurs primarily in the coastal valleys of northern Peru, and the wool of alpaca, llama and vicuna is raised in the mountains of southern Peru. Pima and tanguis cotton have unique properties that are sought for the production of high-end, niche garments. Peru's pima cotton reportedly rivals high-quality Egyptian cotton and is renowned for not only being the longest-staple cotton in the world, but also for its softness that, according to some U.S.

¹³ Except as noted, information in this paragraph is from U.S. and Foreign Commercial Service, "Peru Country Commercial Guide FY 2002 - Economic Trends and Outlook," found at <http://www2.usatrade.gov>, retrieved Nov. 4, 2002.

¹⁴ "The Andean Region: A Vision of Integration," *Apparel Industry*, Sept. 1999, vol. 60, Issue 9, p. SS-22.

¹⁵ West, pp. 12-13.

¹⁶ *Exporamerica*, p. 13.

apparel producers, “rivals silk.”¹⁷ Tanguis cotton is valued for its durability and its ability to absorb color--requiring 15-20 percent less dye to achieve the same color intensity as the next closest cotton. Because tanguis also conducts moisture well, the fabric made from tanguis cotton wicks moisture away from the body and resists fading.¹⁸ Peru’s alpaca wool is known for its fineness, sheen, and strength, and the fleeces offer a wide variety of natural colors, which makes alpaca wool an attractive alternative for clothing manufacturing.¹⁹ Ten percent of Peru’s alpaca production is accounted for by baby alpaca, known for its consistent quality and price stability, and which European customers view favorably as an alternative to cashmere.²⁰ International demand for Peru’s pima cotton and alpaca and vicuna wool has increased during the past 10 years, which reportedly has helped Peru’s textile and apparel sector to grow 25 percent annually.²¹

Peru’s cotton industry has faced some serious challenges in the past few years. El Niño devastated much of Peru’s cotton production--reducing both the quantity and quality of the cotton. Production of high-quality cotton has also fallen as some Peruvian producers have switched to products yielding higher profits.²² Peru’s cotton-growing industry is operating at only 50-percent capacity, and Peru’s textile and apparel sector therefore increasingly relies on cotton imports to meet its textile production requirements.²³ The United States accounts for most of Peru’s raw cotton imports to cover the shortfall in Peru’s cotton production in recent years.²⁴ In 2001, the United States exported about 690,000 net kilos of pima cotton to Peru.

Peru’s production of synthetic fibers (primarily nylon, acrylic, and polyester) rose from 46.5 million pounds in 1997 to 63.7 million pound in 2001.²⁵ Peru’s petrochemical industry is concentrated in Lima and the industry’s leading export markets are in Latin America.²⁶

¹⁷ Gloria Rojas, “Factory Profiles: Export Success for Copertex-Incotex and Diseno y Color,” *Apparel Industry Internacional*, Sept. 1997, found at <http://www.aiimag.com/aiimag.com/aieng/archives/997/story4.html>, retrieved Mar. 2, 1999.

¹⁸ U.S. Department of State telegram 5669, “Peru’s Tanguis and Pima Cotton: An ATPA Factsheet,” prepared by U.S. Embassy, Lima, Oct. 11, 2001; and Rojas, “Factory Profiles.”

¹⁹ *Exporamerica*, p. 14.

²⁰ Alpaca production is estimated to total 4.5 million kilos a year --70 percent is exported in its greasy form to be processed at a destination, often for use in ready-made knitwear. See “Peru: Drive to Sell Baby Alpaca in Europe,” June 13, 2002, found at [wysiwyg://1http://just-style.com](http://just-style.com), retrieved June 13, 2002.

²¹ West, pp. 12-13.

²² Eduardo Orozco, “Peru’s Prized Cotton Industry Unravels,” Reuters, Mar. 2001, found at <http://just-style.com>, retrieved Mar. 2, 2001.

²³ U.S. Department of State telegram 2590, “Peru After Textile Quotas,” prepared by U.S. Embassy, Lima, May 21, 2002.

²⁴ U.S. and Foreign Commercial Service, “International Market Insight-Peru,” 2001.

²⁵ Fiber Economics Bureau, Inc., *Fiber Organon*, May 2002, p. 80.

²⁶ Banco Wiese Sudameris, “Reporte Sectorial-Textiles y Confecciones--Claras Ventajas Competitivas...Pero Hay Que Invertir Para Mantenerlas,” Departamento de Estudios Economicos, May 19, 2001.

Labor

Some sources report that although labor is abundant, there is a shortage of skilled workers in the Peruvian workforce.²⁷ Like its neighbors in South and Central America, however, Peru's manufacturing wage rates are competitive; in 2002, the average hourly wage for spinning and weaving was \$1.63 per hour including benefits.²⁸ Manufacturing industries employed about 963,000 workers, or about 14 percent of Peru's total labor force in 2000.²⁹ Peru's textile and apparel sector is a vital source of employment and accounted for 32 percent of all manufacturing jobs in the same year. Almost 10 percent of the population depended on the textile industry which directly accounted for an estimated 150,000 workers in 2002.³⁰ Within the textile and apparel sector, fifteen percent of the workers is employed in textiles manufacturing and 85 percent is employed in apparel manufacturing.³¹ Peru's textile and apparel sector strongly supported the passage of the ATPDEA because industry representatives estimated that the trade preferences being granted to textile and apparel products would more than double the sector's growth to about 40 percent per year and would generate about 110,000 direct and indirect jobs per year.³² Such job creation is perceived as critical because of Peru's high unemployment rate and as an alternative to the illicit drug production industry.

Technology

Information concerning the level of Peru's textile and apparel manufacturing technology is limited and inconsistent. Some sources report that the textile and apparel industry's use of cutting-edge technology is a leading incentive for foreign investors.³³ Compared with its regional competitors, Peru was the leading recipient of new spindles (for both short-staple and long-staple cotton) and open-end rotors during 1992-2001. However, in overall installed capacity for these machines, Peru ranks second after Colombia. Further, Peru has more than three times as many shuttle looms as shuttleless looms which are more efficient. In addition, according to one source, outdated technology and inefficient industrial engineering practices have contributed to relatively low productivity in Peru's textile and apparel sector.³⁴ Efforts are being made, however, to enhance the level of technology and to expand production capacity, particularly for exports, in order to take full advantage of opportunities generated

²⁷ Mercedes Cortazar, "Peru Not Giving in to El Niño," *Apparel Industry International*, Aug. 1998.

²⁸ Werner International Management Consultants, "Spinning and Weaving Labor Cost Comparisons 2002," Reston, VA.

²⁹ International Labor Organization, "Total Employment - Peru," found at <http://laborsta.ilo.org/cgi-bin/brokerv8.exe>, retrieved Oct. 22, 2002.

³⁰ Peruvian Government, written submission to the Commission, Feb. 3, 2003.

³¹ Exporamerica, pp. 11-12.

³² U.S. Department of State telegram 2426, "Exporamerica Renews Push for Apparel in ATPA," prepared by U.S. Embassy, Lima, Apr. 24, 2000.

³³ "Paraguay, Peru, Puerto Rico," *Apparel Industry*, Sept. 2000, vol. 61, issue 9, p. 60, found at <http://web19.epnet.com>, retrieved Nov. 4, 2002.

³⁴ U.S. Department of State telegram 1287, "Department of Labor Wage Study for the Apparel Industry," prepared by U.S. Embassy, Lima, Mar. 2, 1999.

by the ATPDEA.³⁵ In 2000, Peru's imports of textile machinery totaled \$65 million. Industry representatives also acknowledge that state-of-the-art technology is essential for improving fabric quality and variety in order to offer higher-end textile and apparel products.³⁶ Consequently, ongoing investment in new technology is likely to continue to be a priority for Peru's textile and apparel sector in coming years.

Investment

Currently, 90 percent of Peru's textile and apparel firms are owned by Peruvians.³⁷ Since 1990, the Government of Peru has implemented economic reforms to open the country's economy and to attract foreign investment. Reforms included privatizing most state-owned enterprises, strengthening the financial system, and setting up a legal framework to promote and protect foreign investment (see Government policies section). Peru's mining and energy sectors together have received a major share of Peru's foreign private investment over the years.³⁸ During 1997-2001, total foreign investment in Peru grew by about 11 percent annually to reach \$9.7 billion in 2001.³⁹ Continuing to attract more foreign investment remains a priority for the Peruvian government and for industry representatives.⁴⁰ It is not known how much, if any, foreign investments funds have specifically targeted the textile and apparel sector.⁴¹

In addition to foreign investment, Peru has received multilateral assistance. The World Bank approved a program to loan an average of \$230 million per year between September 2002 and June 2006 to fund projects to boost Peru's fiscal revenues and exports and eliminate obstacles to private sector development.⁴² Information is not readily available, however, that shows if any portion of the World Bank funds has been allocated to the textile and apparel sector.

Government Policies

Domestic policies

Peru's economy has been dominated for many years by exports of gold and base metals such as copper and tin. To diversify the national economy, the Government of Peru has

³⁵ Peru Marketplaces, "Textiles and Apparel - News," found at <http://www.perumarketplaces.com/ing/noticias>, retrieved Nov. 15, 2002.

³⁶ Mercedes Cortazar, "Peru Not Giving in to El Niño."

³⁷ Embassy of Peru, counselor, interview by USITC staff, Jan. 8, 2003.

³⁸ World Trade Organization, "Peru: May 2000," found at <http://www.wto.org/english>, retrieved Oct. 16, 2002.

³⁹ U.S. and Foreign Commercial Service, "Peru Country Commercial Guide FY 2002."

⁴⁰ World Trade Organization - "Trade Policy Review: Peru 2000," press release, May 22, 2000, found at <http://www.wto.org>, retrieved Oct. 16, 2002.

⁴¹ Embassy of Peru, counselor, interview by USITC staff, Jan. 8, 2003.

⁴² The World Bank Group, "Country Assistance Strategy: Peru," found at <http://Inweb18.worldbank.org/External/lac>, retrieved Oct. 25, 2002.

increasingly focused on textile and apparel production, among other sectors. To encourage foreign investment, a number of economic reforms were implemented during the 1990s, including lowering tariffs and establishing a legal framework to promote and protect foreign investment by treating national and foreign investors equally. The major laws governing foreign investment in Peru include the “Foreign Investment Promotion Law (Legislative Decree (DL) 662 of Sept. 1991) and Framework Law for Private Investment Growth (DL 757 of November 1991).⁴³ Although the economic reforms helped to boost Peru’s GDP, employment, and trade, they also led to a deluge of low-cost textile and apparel imports into Peru’s small domestic market. Consequently, Peru’s textile and apparel companies lost sales and saw their profit margins shrink. These developments have prompted Peruvian textile and apparel producers to focus increasingly on high-end products in order to survive.⁴⁴

Trade policies

Peru is a member of the Andean Community (ANCOM)⁴⁵ and will be fully integrated into the free-trade-area of the bloc by 2005. Peru, does not, however, comply with the common external tariff (CET), which is currently 13 percent. As part of the Andean Community, Peru is participating in talks with Mercosur about establishing a free-trade area between the two blocs. However, most tariffs are not expected to be eliminated until 2015.⁴⁶ Also part of the Latin American Integration Association (ALADI), Peru has signed bilateral trade agreements with Argentina, Brazil, Chile, Cuba, Mexico, Paraguay, and Uruguay. Peru has not established free-trade zones comparable to those of its Andean neighbors or special import programs that allow the tariff-free import of raw materials for use in finished products to be exported.⁴⁷

ATPDEA provisions granting preferential treatment for apparel made in Andean countries from regional fabric was considered particularly important for Peru, because its vertically integrated textile and apparel sector uses few U.S. textile inputs. Peru’s textile and apparel sector predicted that including tanguis and pima cotton in the ATPDEA would generate about 140,000 new jobs in textile processing by 2006. Peruvian President Alejandro Toledo announced that the ATPDEA would generate no fewer than 1 million jobs total.⁴⁸ The Peruvian Government is currently working with Peru’s National Institution of Export Promotion (PROMPEX) on an operational plan that establishes policies and procedures and strengthens partnerships between Peruvian and U.S. firms to increase exports to the United States. In September 2002, the Peruvian Government issued its first set of actions to promote exports and reduce duties from 7 percent to 4 percent on more than 1,000 tariff lines.

⁴³ “Peru,” *Caribbean/Latin America Profile*, p. D-58.

⁴⁴ U.S. Department of State telegram 2590, “Peru After Textile Quotas.”

⁴⁵ The Andean Community comprises Bolivia, Colombia, Ecuador, Peru, and Venezuela, and is a Customs Union—the goods of member countries circulate unimpededly throughout its territory free of duty, while imports outside the region pay a common tariff. See “Who Are We - Andean Community,” found at <http://www.comunidadanina.org/ingles/who.htm>, retrieved Apr. 24, 2003.

⁴⁶ “Peru,” *Caribbean/Latin America Profile*, p. D-58.

⁴⁷ Embassy of Peru, counselor, interview by USITC staff, Jan. 8, 2003.

⁴⁸ “U.S. Duty-Free Treatment Could Boost Peru’s Textile Industry.”

Foreign Trade

Peru's trade surplus in textiles and apparel increased by 23 percent during 1997-2001 to \$374 million, as the 19-percent increase in Peru's exports exceeded the 13-percent growth of its imports (table J-12). The United States and the EU were Peru's major trading partners, and apparel exports to these markets accounted for most of Peru's trade with them.

Imports

Peru's imports of textiles and apparel rose by during 1997-2001 13 percent to \$248 million (table J-12). Textiles accounted for almost three-fourths (71 percent) of Peru's imports in 2001 and totaled \$175 million, up by 15 percent since 1997. United Nations data show leading suppliers of textiles to Peru included Korea (19 percent), China (13 percent) the United States (10 percent), and Brazil (9 percent). Apparel accounted for 29 percent of Peru's sector imports.⁴⁹ Peru's imports of apparel rose by 11 percent during 1997-2001 to \$72.4 million. Leading suppliers of apparel to Peru in 2001 were China (\$39.8 million), the EU (\$8.2 million), and the United States (\$4.2 million) with respective totals of 55 percent, 11 percent, and 6 percent. Peru's imports of apparel from China almost quadrupled during 1997-2001, whereas apparel imports from the EU and the United States declined by 45 percent and 58 percent, respectively.

Exports

Peru's exports of textiles and apparel grew by 19 percent during 1997- 2001 to \$621 million (table J-13). Apparel accounted for 81 percent of Peru's sector exports in 2001. The United States accounted for 62 percent of Peru's exports for textiles and apparel in 2001. Peru's textiles and apparel exports to the United States rose by 71 percent during 1997-2001 to \$387 million. For the first time, Peru became the leading Andean supplier of textiles and apparel to the U.S. market in 2001, accounting for 48 percent of U.S. sector imports from the ATPA countries. The leading apparel imports from Peru were cotton knit shirts (including T-shirts), sweaters, robes, nightwear, and trousers (table J-14).

U.S. imports of textiles and apparel from Peru are not subject to quotas. The trade-weighted average duty on U.S. imports of textiles and apparel from Peru was 17.2 percent ad valorem. Peru's high trade-weighted average duty may be attributed in part to Peru's minimal use of U.S. textile inputs. Peru has only a few apparel maquiladoras (i.e., assembly operations owned by or under contract to U.S. or other foreign apparel producers) engaged in production-sharing operations (see section on "trade policies"). Consequently, U.S. imports of textiles and apparel from Peru entering under HTS heading 9802.00.80 in 2001 totaled only \$712,000, or less than 1 percent of total U.S. sector imports from Peru.

Peru's second-largest market for sector exports in 2001 was the EU, which accounted for 12 percent (\$77 million) of Peru's textile and apparel exports, down from 25 percent in 1997. Peru is the only ATPA country whose textile and apparel products are subject to quotas in

⁴⁹ Based on import statistics provided by the Peruvian Government in a written submission to the Commission, Feb. 3, 2003. The data include wool and tops, manmade filament tow, made-up fishing nets, and other miscellaneous textile manufactures.

the EU market. In 2002, the quota fill rates for EU imports of cotton yarn and cotton fabrics from Peru were less than 10 percent. The sharp decline in the EU share of Peru's exports during 1997-2001, however, may be attributed in part to increased competition from low-cost products from Asian suppliers.

Table J-12
Peru: Statistical profile of textile and apparel sector and foreign trade, 1997-2001

Item	1997	1998	1999	2000	2001
Number of textile and apparel establishments	(¹)	(¹)	(¹)	(¹)	11,000
Number of textile and apparel workers	(¹)	(¹)	(¹)	150,000	150,000
Installed spinning capacities:					
Short-staple spindles (<i>number</i>)	700,000	700,000	700,000	700,000	700,000
Long-staple spindles (<i>number</i>)	70,000	70,000	70,000	70,000	70,000
Open-end rotors (<i>number</i>)	17,500	17,500	18,00	18,000	18,000
Installed weaving capacities:					
Shuttleless looms (<i>number</i>)	1,350	1,350	1,350	1,350	1,350
Shuttle looms (<i>number</i>)	5,000	5,000	5,000	5,000	5,000
Purchases of large circular knitting machines					
(<i>number</i>)	(¹)	145	74	123	85
Total labor cost per operator hour	(¹)	(¹)	(¹)	\$1.74	² \$1.63
Foreign trade:					
Exports:					
Textiles (<i>million dollars</i>)	195.6	163.9	114.4	128.1	115.1
Apparel (<i>million dollars</i>)	325.8	336.4	413.7	504.1	506.3
Total (<i>million dollars</i>)	521.3	500.3	528.1	632.3	621.4
Imports:					
Textiles (<i>million dollars</i>)	153.0	156.3	138.5	164.9	175.2
Apparel (<i>million dollars</i>)	65.2	61.1	51.1	58.7	72.4
Total (<i>million dollars</i>)	218.3	217.5	189.6	223.6	247.6
Trade balance:					
Textiles (<i>million dollars</i>)	42.5	7.6	-24.0	-36.8	-60.1
Apparel (<i>million dollars</i>)	260.6	275.3	362.6	445.4	433.9
Total (<i>million dollars</i>)	303.1	282.8	338.6	408.6	373.8

¹ Not available.

² Represents 2002 data for production workers in the spinning and weaving segment.

Note.—Because of rounding, figures may not add to totals shown.

Source: Industry data compiled from the International Textile Manufacturers Federation (Zurich), *International Textile Machinery Shipment Statistics*, vol. 25/2002, and selected back issues; and Werner International Management Consultants, Reston, VA. Trade data are United Nations data as reported by Peru.

Table J-13

Peru: Exports of textiles and apparel, by selected markets, 1997-2001

Item and market	1997	1998	1999	2000	2001
<i>Million dollars</i>					
Textiles (SITC 65):					
Quota markets:					
United States	29	32	19	24	14
European Union	49	36	28	25	19
Canada	5	5	3	2	2
Subtotal	82	73	50	50	35
All other:					
Venezuela	16	13	7	13	13
Chile	18	15	14	13	12
Colombia	16	10	5	10	10
Other	63	54	39	43	44
Subtotal	113	91	65	78	80
Grand total	196	164	114	128	115
Apparel (SITC 84):					
Quota markets:					
United States	198	227	313	390	373
European Union	80	72	61	57	58
Canada	3	4	5	5	5
Subtotal	282	303	379	452	436
All other	44	34	35	52	70
Grand total	326	336	414	504	506
Textiles and apparel:					
Quota markets:					
United States	226	259	331	414	387
European Union	129	108	89	81	77
Canada	9	9	8	7	7
Subtotal	364	376	429	502	472
All other	158	124	100	130	150
Grand total	521	500	528	632	621
<i>Percent</i>					
Share of exports going to quota markets:					
Textiles	42	45	43	39	31
Apparel	86	90	92	90	86
Average	70	75	81	79	76

Note.—Because of rounding, figures may not add to totals shown.

Source: Compiled from United Nations data.

Table J-14

Textiles and apparel: U.S. general imports from Peru, by specified product categories,¹ 1997-2002

Cat.		1997	1998	1999	2000	2001	2002
No. Description		<i>1,000 square meters equivalent</i>					
0	Textiles and apparel, total	45,198	44,597	58,315	70,461	58,281	63,474
1	Apparel	22,529	28,125	43,973	53,142	50,529	56,678
2	Textiles	22,669	16,472	14,342	17,319	7,752	6,797
30	Cotton textiles and apparel	41,609	40,080	55,240	66,464	55,435	60,898
40	Wool textiles and apparel	2,488	2,618	2,010	2,067	1,292	1,139
60	Manmade-fiber textiles and apparel	1,060	1,896	1,054	1,913	1,538	1,400
239	Babies' apparel	402	649	896	1,556	1,921	2,431
300	Carded cotton yarn	4,076	4	567	538	203	155
301	Combed cotton yarn	12,169	9,405	8,714	9,511	3,016	1,952
338	Cotton knit shirts, men/boys	7,066	8,854	13,375	17,226	15,144	17,306
339	Cotton knit shirts, women/girls	4,520	6,479	10,965	16,430	18,222	19,824
345	Cotton sweaters	441	578	575	976	1,028	1,008
347	Cotton trousers, men/boys	1,276	1,026	1,119	1,501	2,250	1,995
348	Cotton trousers, women/girls	812	513	1,510	2,078	2,270	1,952
350	Cotton robes	2,080	2,653	5,290	3,472	216	2,347
351	Cotton nightwear	2,505	3,482	5,416	4,781	4,590	4,315
352	Cotton underwear	840	1,009	1,689	986	1,022	598
359	Other cotton apparel	277	255	239	315	350	6327
400	Wool yarns	1,741	1,849	1,247	988	579	576

¹ To administer the U.S. textile and apparel quota program, articles are grouped under 3-digit category numbers, which cover many 10-digit statistical reporting numbers under which goods are classified from statistical purposes in the Harmonized Tariff Schedule of the United States (HTS). The 1-digit and 2-digit numbers represent specific levels of import aggregation for articles covered by the quota program (e.g., the number "1" represents total imports of apparel, while "31" represents total imports of cotton apparel).

Source: Compiled from official statistics of the U.S. Department of Commerce, which are available on its website at <http://otexa.ita.doc.gov/>.